



SUBJECT: Financial status report as at December 31, 2021

TO: Corporate Services, Strategy, Risk & Accountability Cttee.

FROM: Finance Department

Report Number: F-01-22

Wards Affected: All

File Numbers: 100-01

Date to Committee: March 2, 2022

Date to Council: March 22, 2022

Recommendation:

Receive and file finance department report F-01-22, financial status report as at December 31, 2021.

PURPOSE:

Vision to Focus Alignment:

- Deliver customer centric services with a focus on efficiency and technology transformation

Background and Discussion:

PART A - FINANCIAL POSITION

The instability of the global and Canadian economy continued for much of 2021 as a result of the ongoing COVID-19 pandemic. In 2020, the initial reaction of the Bank of Canada saw the lowering of interest rates three times, taking the overnight rate from 1.75% down to 0.25%. The interest rate cuts were delivered to support economic activity and keep inflation low and stable. For the City, these interest rate cuts have had a negative impact on the ability to generate interest income throughout 2020 and 2021. Further complexities to the City's situation were fueled by the expectation of a sharp rebound in the economy in 2021. This has limited the ability of capital gains to be recognized throughout the year. The market saw some stabilization in the last half of

2021 which allowed staff to realize needed capital gains. Staff will continue to monitor economic conditions daily and assess the resulting impact on the market while managing the risk to the City's portfolio.

Staff maintained the following investment and cash flow strategies for 2021;

- Monitor daily cash balances to manage the risk surrounding diminishing cash flows to ensure the City can continue to meet its financial obligations.
- Maintain investments in the City's long-term portfolio to maximize interest income and support cash flow.
- Trade bonds for capital gains by taking advantage of market fluctuations generated by economic data.

Overall, investment income exceeded budget for year-end based on the details below:

	Actual December 2021	Actual December 2020
Total Interest	3,816,574	3,633,200
Budget	5,300,000	5,300,000
Favourable/(Unfavourable) Variance	(1,483,426)	(1,666,800)
Capital Gains	1,788,391	4,179,178
Favourable/(Unfavourable) Variance	304,965	2,512,378

The attached Appendix A shows investment income (interest earned, and capital gains realized) to December 31, 2021 on the total investment portfolio. The overall investment portfolio has increased \$38.2M from the previous year. A large portion of this increase is attributed to the receipt of Safe Restart Funding, Canada Community Building fund (formerly Federal Gas Tax) top up funding, and funding from the City of Hamilton for the Waterdown Road project.

Investment income as of December 31, 2021 has decreased compared to prior year. Unusually large capital gains were realized in the first quarter of 2020 when oil prices dropped and at the onset of the pandemic. This was an extraordinary situation that will not present itself under normal circumstances. Investment income will vary at different times of the year depending on economic conditions.

Appendix B provides a listing of the current portfolio by type of investment, and weighted average yield, in accordance with the Ontario Regulation 438/97. In following

the City of Burlington's investment policy, the City can purchase Region of Halton bonds, up to but not greater than, the amount of the debenture issued on behalf of the City. As of December 31, 2021, the City's investment portfolio included \$15.2 million Region of Halton bonds.

As at December 31, 2021 the City's investment portfolio is compliant with the guidelines set out in the City's investment policy and goals adopted by the City.

PART B - PROPERTY TAX COLLECTION

The City of Burlington collects property taxes for the city, Region of Halton and the Halton Boards of Education as legislated under the *Municipal Act, 2001*. Appendix C reflects the property tax status at December 31, 2021 compared to December 31, 2020. The 2021 total levy is \$443.8 million compared to \$433.5 million in 2020.

Collections for the current taxation year are 98.1%, which is consistent with prior years as highlighted in the chart below and detailed in Appendix C.

As at December 31	2021	2020	2019	2018	2017
Current year Collections	98.1%	97.6%	97.7%	98.0%	97.8%
Current year Outstanding*	1.9%	2.4%	2.3%	2.0%	2.2%

*includes installments not yet due

Late payment notices are sent four times per year to aid in collections. In addition, collection letters for accounts that have arrears in both the current year and two previous years are typically sent in Q1 (for business properties) and Q2 (for residential properties). In 2021, due to the ongoing pandemic, these letters were sent in July. These property owners have been provided with a deadline to pay the oldest year of arrears by December 31, 2021 (normally the deadline would have been October 31, 2021).

A property title search was undertaken in January 2022 on accounts with three years of arrears and lenders were notified. This typically results in most accounts being paid.

For those properties that remain three years in arrears, the *Municipal Act, 2001* allows for a tax sale process. The owner or any interested party has one year to pay out the tax arrears. If arrears remain after the one-year period, the city may proceed with a municipal tax sale.

Only one tax arrears certificate was registered on a residential property in 2021. Staff continue to work with the resident and full payment is expected in Q2.

In response to the on-going Covid-19 pandemic, City Council approved a 2022 Covid-19 Property Tax Payment Plan. The program allows eligible property owners who are unable to pay their property taxes by the regularly scheduled due dates to make payments under a pre-authorized payment plan, including arrears dating back to March

2020. The plan allows for a start date between March 1 and July 1 with property taxes being paid in full by December 1, 2022.

The city continues to offer multiple payment options including three pre-authorized payment plans which provide a convenient and reliable payment method for property owners. Approximately one third (21,400) of all property accounts are enrolled in these pre-authorized payment plans.

The Chief Financial Officer continues to provide council with monthly updates on financials and property tax collection, with the most recent update at the Environment, Infrastructure & Community Services Committee meeting on February 3, 2022.

PART C - DEBT AND FINANCIAL OBLIGATION LIMIT

As of December 31, 2021, the City's total debt charges as a percentage of own source revenue is estimated to be 9.3%, which is below the council approved guideline of 12.5%, and below the provincial limit of 25% (See Appendix D). This calculation is based on the 2019 Financial Information Return as provided from the Province. Furthermore, the City's debt to reserve ratio is 0.63. This implies that for every \$1 of discretionary reserves the City has \$0.63 of debt.

The City has an estimated \$82 million in total principal debt outstanding. Taking into consideration principal debt repayments of \$13.8 million, \$18.1 million in debt which has been approved and not issued, and this year's debt issuance of \$6.7 million, total City principal debt outstanding at year end 2021 is forecasted at approximately \$93 million. The last debt issuance was at a rate of 1.83%.

PART D - RESERVES AND RESERVE FUNDS

Reserves and reserve funds are an important element of the City's long-term financial plan. They allow the City to set aside funds for a future purpose and fulfil a critical financial need for the municipality. They make provisions for the replacement and rehabilitation of existing City assets, provide a contingency for one-time and unforeseeable events, and provide flexibility to manage debt levels and protect the City's financial position.

Stabilization Reserves and Reserve Funds

Stabilization reserves are used to offset extraordinary and unforeseen expenditure requirements, one-time expenditures, cyclical expenses, revenue shortfalls and they help to minimize fluctuations in the tax levy.

<ul style="list-style-type: none"> • Contingency • Severe Weather • Tax Rate Stabilization 	<ul style="list-style-type: none"> • Planning Fee Stabilization • Engineering Fee Stabilization • Commodity Stabilization
<p>Target Balance of consolidated stabilization reserves and reserve funds (excluding building permit) is 10-15% of city's own source revenues. Based on 2020 own source revenues of \$224 million the target range is: \$22.4 million to \$33.6 million</p>	
<p>December 31, 2021 <i>Uncommitted Balance</i>: \$23,942,952 → Currently at 10.7% of Target</p>	

As part of the City's reserve and reserve fund policies the city sets a target balance for consolidated stabilization reserve funds (excluding Building Permit) at 10-15% of the City's own source revenues. It is important to note that the target is based on the City's uncommitted balance as an accurate depiction of funding available for future use. The cash balance includes funds approved by council to be spent on specific initiatives and therefore are not available for future spending. The City is currently at 10.7% which is at the low end of the City's target range of 10-15%.

The severe weather reserve fund is used to alleviate the impact of unforeseen fluctuations in costs associated with severe weather events. The City's policy with respect to this reserve fund is highlighted below.

Stabilization Reserve Fund	Recommended Balance	December 31, Uncommitted Balance
Severe Weather Reserve Fund	<p>A minimum balance of 25% of the five-year average of winter maintenance costs, this equates to \$1,121,386.</p> <p>Target balance equal to one year's expenditure requirements (2021) = \$5,785,770.</p>	\$5,339,363

As per the policy the balance in the reserve fund exceeds the minimum balance requirement, however, is less than the target balance by approximately \$0.45 million.

Building Permit Stabilization Reserve Fund

The building permit stabilization reserve fund is used stabilize building permit revenues and expenditures, which can vary from year to year based on development activity levels in accordance with Bill 124.

Corporate Reserve Funds	Recommended Balance		December 31 Uncommitted Balance
Building Permit Stabilization	The reserve fund is capped at 163% of direct costs.	Total direct costs for 2020 were approximately \$3.3 million. Based on this the upset balance for the reserve fund is \$5.4 million.	\$2.9 million

Capital Reserve Funds

Capital reserve funds form an important component of any Capital Financing Plan and are used extensively by the City in financing the capital program for maintenance and replacement of existing infrastructure to maintain assets in a state of good repair and the construction/purchase of infrastructure to service the growing community.

Capital Reserve Funds	Recommended Balance		December 31 Uncommitted Balance
Vehicle and Equipment Reserve Funds	The target balance for the consolidated capital reserve fund balance is a minimum of 2% of the asset replacement value.	The City's 2021 Asset Management Plan has total asset replacement value at approximately \$5.18 billion. Based on this amount the recommended balance is \$104 million.	\$39.4 million
Parks & Recreation Infrastructure Reserve Funds			
Transit Related Reserve Funds			
Other Capital Reserve Funds			

Corporate Reserve Funds

Corporate reserve funds provide for various contingent and potential future liabilities. The City budgets annually for the current year costs expected to be incurred from these liabilities but does not budget for the estimated future liability. The impact of post-employment benefit expenses is communicated annually as part of the financial statements.

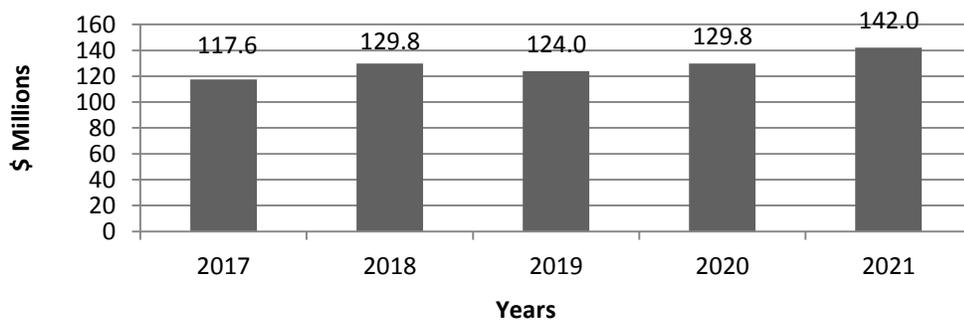
Corporate Reserve Funds	2020 Actuarial Valuation Liability	December 31 Uncommitted Balance
Employee Accident	\$8.5 million	\$5.6 million
Benefits	\$14.9 million	\$4.2 million

The status of the City’s Reserves and Reserve Funds balances are disclosed in Appendix E.

At December 31, 2021, the total of the reserve and reserve fund balances amounted to \$225.0 million, which is \$12.8 million higher than the corresponding figure of \$212.2 million at December 31, 2020. Contributing to the increase is the unspent Safe Restart funding, receipt of funding from the City of Hamilton and the Canada Community Building fund (formerly Federal Gas Tax) top up funding.

Of the total Reserves and Reserve Funds \$83.0 million is committed for various projects leaving an uncommitted balance of \$142.0 million. The commitments represent expenditures approved by Council or funds held for specific future purposes. The following chart provides a historical perspective of uncommitted reserve and reserve fund balances as at December 31:

Uncommitted Reserve and Reserve Fund Balances as at December 31



PART E - 2021 BUDGET MONITORING

Please refer to the 2021 Operating Budget Performance Report (F-09-22 on this agenda) for the major drivers contributing to the balanced year end financial position.

PART F - Financial Position

The financial status report provides information on significant balances on the City’s statement of financial position. Information is provided on the City’s short- and long-term investments and cash balances. Information is also provided on taxes receivable. The reserve fund balances contain obligatory reserve funds which are shown as deferred revenue on the City’s statement of financial position. Our net long-term liabilities are discussed in the section on debt and financial obligation limits. Significant balances are as follows:

As at December 31st

(Amounts are in thousands of dollars)

	2021	2020
	\$	\$
Cash & temporary investments	63,322	77,828
Taxes receivable*	10,657	13,295
Long term investments	246,852	194,178
Investment in Burlington Hydro Electric**	137,693	137,693
Deferred revenue - obligatory reserve funds	85,356	70,155
Net long-term liabilities	74,826	81,982

*** Reported net of allowance for write-offs**

**** 2021 balance is as at December 31, 2020**

The City’s statement of financial position provides a long-term view of the City’s financial health. A year over year comparison helps to identify indicators that may be of concern or interest. As of December 31, 2021, there was an increase in the deferred revenue for the obligatory reserve funds of approximately \$15.2 million.

Other significant balance changes include:

- Decrease in taxes receivables, which are now more comparable to pre-pandemic values (\$10.8 million as at December 31, 2019); and
 - Decrease in cash and temporary investments and increase in long-term investments which are addressed in Part A of the report. Staff continue to monitor these balances daily and will report to Council on a regular basis.
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Financial Matters:

Not applicable.

Total Financial Impact

Not applicable.

Source of Funding

Not applicable.

Other Resource Impacts

Not applicable.

Climate Implications

Not applicable.

Conclusion:

To present the financial status of the City as at December 31, 2021.

Respectfully submitted,

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Appendices:

- A. Securities Position and Performance
- B. Investment Portfolio
- C. Property Tax Collection
- D. Debt and Financial Obligation Limit
- E. Reserve Funds and Reserves

Report Approval:

All reports are reviewed and/or approved by Department Director, the Chief Financial Officer and the Executive Director of Legal Services & Corporation Counsel.